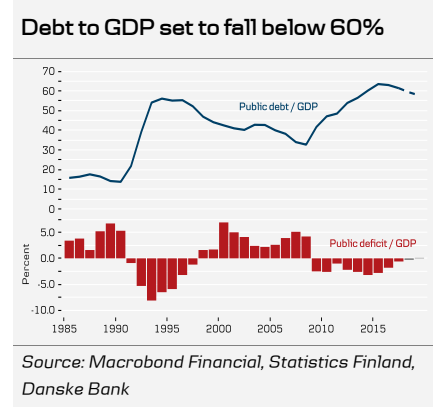
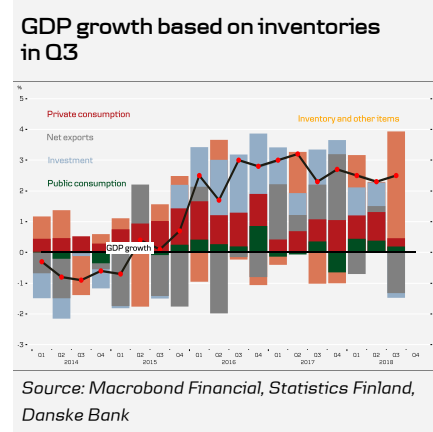


# Finland Research

## Shakier outlook into election year 2019

- The Finnish economy has continued to perform reasonably well in 2018, but third quarter GDP figures were somewhat baffling. GDP rose 2.4% y/y WDA and 0.4% q/q SA in Q3, but growth was almost entirely based on inventories. All other demand items grew sluggishly at best. Other indicators have not shown similar anomalies, but growth has slowed down in most economic activities. We have revised down our GDP forecast and expect GDP to grow 1.7% in 2019. Despite a lower growth outlook, we continue to expect roughly balanced general government finances in 2019.
- Finland has improved after an unusually long recession, but genuine growth has been achieved only since 2016. Exports and investment played an important role in the recovery in 2017, but consumption took a stronger role in early 2018. Thanks to a good employment outlook and rising wages, consumer confidence remains elevated. Going forward, we forecast earnings to rise by 2.5% in 2019 and 2020, which brings some real purchasing power. Employment is growing slowly, while a shortage of skilled labour is appearing in some key industries, from construction to IT services. Future growth outlook depends partly on structural reforms to raise labour participation.
- The housing market is divided geographically and by type of housing. A demographic shift towards smaller families and migration to growth centres has increased demand for small apartments. Strong demand has raised prices and fuelled a construction boom in Helsinki and a few other towns while dwelling prices are falling in some parts of the country.
- The general government debt to GDP ratio is set to fall below 60% in 2018. The government has refrained from drawing up an expansionary budget going into parliamentary election year 2019. Positive one-off items especially from asset sales will help the central government to lower public debt in 2018, but we forecast debt to resume modest growth in 2019. General government finances are close to balance in the near term, but aging will hit public finances during the next decade. The sovereign rating outlook is getting brighter, but rating agencies need further evidence of successful structural reforms.



### Danske Bank Finnish economic forecasts

FINLAND	Current forecast			Previous forecast	
	2018	2019	2020	2018	2019
GDP, %	2.3	1.7	1.5	2.7	2.0
Unemployment rate, %	7.5	7.0	6.9	8.0	7.7
Inflation, %	1.1	1.5	1.5	1.0	1.4
Earnings, %	1.9	2.5	2.5	2.0	2.3
Housing prices, %	1.1	0.5	1.0	1.2	1.5
CA, % of GDP	-0.9	-0.4	-0.2	0.5	0.7
Public deficit, % of GDP	-0.3	0.0	0.1	-0.3	-0.1
Public debt, % of GDP	59.2	57.9	56.5	59.1	57.6

Source: Danske Bank

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This research report has been prepared by Danske Research, a division of Danske Bank A/S ("Danske Bank"). The author of the research report is Pasi Kuoppamäki, Chief Economist, Danske Bank A/S, Finland branch.

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